

Message Text

SECRET

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ACTION EA-09

INFO OCT-01 ISO-00 AID-05 EB-07 AGR-05 TRSE-00 OMB-01

CIAE-00 DODE-00 PM-04 H-02 INR-07 L-03 NSAE-00 NSC-05

PA-01 PRS-01 SP-02 SS-15 USIA-06 MC-02 XMB-02 FEA-01

OPIC-03 SSO-00 /082 W

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R 280250Z APR 76

FM AMEMBASSY JAKARTA

TO SECSTATE WASHDC 4093

S E C R E T SECTION 1 OF 2 JAKARTA 5533

EO 11652: GDS

TAGS: PFOR ID

SUBJECT: U.S.-INDONESIAN RELATIONS

1. SUMMARY: IN CONVERSATION APRIL 27, I SOUGHT, THROUGH MINISTER WIDJOJO, TO ALLAY CONCERNS OF PRESIDENT SUHARTO OVER U.S. ATTITUDE TOWARD INDONESIA. PRESIDENT'S REPORTED "DISAPPOINTMENT" RELATED PRIMARILY TO MILITARY ASSISTANCE AND PL-480; I TOOK OCCASION ALSO MENTION ECONOMIC AID IMPLEMENTATION PROBLEMS, SUGAR MILL BIDS, PRODUCTION SHARING, TAX QUESTION, AND COMMENT ON GOI POLICY TOWARD OIL COMPANIES. END SUMMARY.

2. ON APRIL 23 FORMER AMBASSADOR SUDJATMOKO, NOW ADVISER TO BAPPENAS, TOLD ME OF MEETING HE HAD HAD WITH MINISTER OF PLANNING AND NATIONAL ECONOMY WIDJOJO IN WHICH LATTER EXPRESSED DISAPPOINTMENT OF PRESIDENT SUHARTO AT CURRENT STATE U.S.-INDONESIAN RELATIONS. SUDJATMOKO MENTIONED PARTICULARLY PROBLEMS OF MILITARY ASSISTANCE AND ALLEGED U.S. OPPOSITION TO INDONESIAN COTTON EXPORTS. HE SAID WIDJOJO THINKING OF RAISING THESE QUESTIONS IN FORTH-COMING U.S.-INDONESIAN CONSULTATIONS. I SUGGESTED PERHAPS IT WAS NOT NECESSARY WAIT FOR CONSULTATIONS AND REQUESTED APPOINTMENT TO REVIEW MATTERS WITH WIDJOJO DIRECTLY.

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APPOINTMENT CAME APRIL 27.

3. AT MEETING I EXPLAINED TO WIDJOJO MY DESIRE CLARIFY ANY QUESTIONS PRESIDENT SUHARTO MAY HAVE REGARDING OUR CURRENT RELATIONS AND ASKED WHAT APPEARED TO BE PRIMARY PROBLEMS. WIDJOJO REPLIED THAT PRESIDENT SUHARTO HAD MANY PROBLEMS BUT HE WAS STRONGLY DETERMINED TO BRING INDONESIA THROUGH THIS CRITICAL PERIOD AND HE WAS GIVING STRONG SUPPORT TO HIS MINISTERS TO TAKE NECESSARY ACTIONS. HELP FROM TRADITIONAL FRIENDS, THEREFORE, BECAME PARTICULARLY CRITICAL. IN RECENT CONVERSATION PRESIDENT HAS EXPRESSED DISAPPOINTMENT AT LACK OF IMPLEMENTATION OF U..S. MILITARY ASSISTANCE PACKAGE AND HAD WONDERED WHETHER INDONESIA STILL IMPORTANT TO U.S. HE IS AWARE OF PROBLEMS IN U.S. BUT STILL CANNOT UNDERSTAND LACK OF CURRENT ACTIONS.

4. IN RESPONSE TO WIDJOJO, I SAID WE WERE AWARE OF PRESIDENT'S DISAPPOINTMENT AND I WELCOMED CHANCE TO EXPLAIN OUR POSITION. I SOMETIMES WONDERED WHETHER PRESIDENT, IN EXPRESSING DISAPPOINTMENT, WAS NOT PROCEEDING ON BASIS OF UNREALISTIC EXPECTATIONS WHICH MAY HAVE FLOWED FROM CONVERSATIONS EARLIER IN THE NEW ORDER. WIDJOJO ASSURED ME THIS WAS NOT CASE AND SAID PRESIDENT PRIMARILY FOCUSSED ON PACKAGE AGREED TO IN CONSULTATIONS WITH GENERAL MOERDANI LAST YEAR.

5. IN THAT CASE I TOLD WIDJOJO I WAS IN POSITION TO ASSURE PRESIDENT THAT WE WERE STILL PROCEEDING TO SEEK NECESSARY FUNDS ON BASIS THAT PACKAGE. BECAUSE OF US BUDGETARY PROBLEMS THERE HAD BEEN SHIFT FROM ORIGINAL GRANT FIGURE TO FMS BUT TOTAL PACKAGE OF \$38.2 MILLION STILL REPRESENTED SUBSTANTIAL FIGURE. I EMPHASIZED PRESSURES ON GRANT PROGRAMS AS WELL AS MILITARY ASSISTANCE PROGRAMS IN GENERAL AND POINTED OUT INDONESIA ONE OF FOUR COUNTRIES IN ASIA RECEIVING GRANT MILITARY ASSISTANCE AND ONLY ONE IN WHICH GRANT IS JUSTIFIED SOLELY ON BASIS OF IMPORTANCE WE ATTACH TO INDONESIA AND NOT RELATED EITHER ACTIVE MILITARY THREAT OR PRESENCE OF BASES. \$70 MILLION FIGURE USED IN MOERDANI CONVERSATIONS REPRESENTED EXTENSION OF GRANT AND CREDIT OVER MORE THAN ONE FISCAL YEAR. IF WE ARE ABLE TO OBTAIN FIGURE OF 45.4 MILLION REQUESTED

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IN FU-77, WE WILL BE CLOSE TO FIGURE DISCUSSED WITH MOERDANI. SECURITY ASSISTANCE LEGISLATION IS HAVING DIFFICULT TIME IN CONGRESS AND WE CAN UNDERSTAND INDONESIAN FRUSTRATION OVER DELAYS. WE HOPE PRESIDENT SUHARTO UNDERSTANDS, HOWEVER, VERY SPECIAL EFFORT BEING MADE TO FOLLOW UP ON EARLIER U.S. ASSURANCES.

6. WIDJOJO ASKED ABOUT CREDIT TERMS FOR FMS. I SAID WE

STILL HAD PROBLEMS ARISING FROM FEELING THAT INDONESIA
COULD AFFORD HARDER CREDIT TERMS. WE HAD GONE BACK TO AP-
PROPRIATE AUTHORITIES AND REQUESTED CHANGE IN REPAYMENT
PERIOD FROM FIVE YEARS TO SEVEN YEARS AND I WAS HOPEFUL
THIS WOULD BE APPROVED. WIDJOJO SAID SEVEN YEARS REPAYMENT
PERIOD WOULD BE ACCEPTABLE IF THERE WAS ADDITIONAL GRACE
PERIOD (OF TWO YEARS WHICH GOI HAS BEEN REQUESTING IN ADDITION
TO 8 YEAR REPAYMENT PERIOD.

7. SECOND POINT WIDJOJO MENTIONED WAS PRESIDENT'S UNHAPPINESS
THAT AT TIME WHEN HE WAS SEEKING PROMOTE INDONESIAN EXPORTS
WE WERE PREVENTING USE OF AMERICAN COTTON FOR SUCH EXPORTS.
I EXPLAINED THAT U.S. LAW REQUIRED THAT ANY COTTON EXPORTS
FROM COUNTRY RECEIVING PL-480 COTTON HAD TO BE OFFSET BY
ADDITIONAL COMMERICAL PURCHASES OVER AND ABOVE UMR. GENERAL
ARIFIN OF BULOG WAS WELL AWARE OF PROBLEM AND I HAD BEEN
UNDER IMPRESSION THAT BY AGREEMENT WITH HIM WE HAD SWITCHED
TO COTTON PURCHASES WITH CCC CREDIT TO AVOID DIFFICULTIES
POSED BY PL-480 REQUIREMENTS. I EXPRESSED HOPE WIDJOJO
COULD EXPLAIN TO PRESIDENT THAT THIS WAS NOT MOVE AGAINST
INDONESIAN EXPORTS BUT NECESSARY COMPLICATION ARISING
FROM PL-480.

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FM AMEMBASSY JAKARTA

TO SECSTATE WASHDC 4094

S E C R E T SECTION 2 OF 2 JAKARTA 5533

8. I ASKED WIDJOJO WHETHER HE WAS AWARE THAT THERE HAD

BEEN REVERSAL OF EARLIER U.S. POLICY ON ECONOMIC AID WHICH HAD CALLED FOR EARLY TERMINATION OF CONCESSIONAL ASSISTANCE. WHILE FINAL DECISION UP TO CONGRESSIONAL APPROPRIATIONS, WE WERE NOW AUTHORIZED CONSIDER CONCESSIONAL LENDING AND GRANT PROJECTS UP TO \$50 MILLION ANNUALLY AND PERHAPS ABOVE IF PROJECTS COULD BE FOUND. IF ONE COMBINES THIS WITH PL-480 FIGURE, IT REPRESENTS SUBSTANTIAL INCREASE IN ANNUAL AID LEVEL. WIDJOJO SAID HE WAS VERY PLEASED TO HEAR THIS. HE HAD NOT BEEN PREVIOUSLY AWARE OF IT.

9. I POINTED OUT THAT NATURALLY OUR ABILITY TO SUSTAIN AND JUSTIFY INCREASED LEVEL DEPENDED ON INDONESIA'S ABILITY HELP US FIND GOOD PROJECTS WITHIN CURRENT AID MANDATE AND ON PROMPT IMPLEMENTATION. THIS WAS NOT ONLY MATTER OF EFFICIENT PROCEDURES BUT ALSO RELATED TO WILLINGNESS OF GOI TO ALLOCATE LOCAL CURRENCY TO SUPPORT U.S. PROJECTS. WE UNDERSTOOD BUDGETARY PROBLEMS BUT FELT THAT WITH SUBSTANTIAL INPUT OF RUPIAHS THROUGH PL-480, GOI HAD JUSTIFICATION FOR ALLOCATION OF RUPIAHS TO SUPPORT U.S. PROJECTS. WIDJOJO AGREED THAT THIS WAS SO. I MENTIONED PARTICULARLY RURAL SANITARIAN PROJECT IN MINISTRY OF HEALTH.

10. I TOOK OCCASION ALSO TO REQUEST HIS HELP IN ARRANGING
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MEETINGS WITH REPRESENTATIVES OF U.S. COMPANIES BIDDING ON SUGAR MILLS. HE SAID PROBLEM HERE HAD BEEN DIFFICULTIES OF EXIM FINANCING. I SAID I UNDERSTOOD THIS BUT FELT U.S. COMPANIES DESERVED HEARING. I MENTIONED SENATORIAL INTEREST. WIDJOJO AGREED THAT THEY DESERVED HEARING AND SAID HE WOULD AUTHORIZE IT.

11. IN QUESTION OF IRS RULING THAT PRODUCTION SHARING CONTRACT SHARES CONSTITUTED ROYALTIES AND NOT TAX, I EXPLAINED THAT I WAS IN TOUCH WITH MINISTER OF FINANCE AND THAT WE WERE SUGGESTING THAT LAWYER REPRESENTING INDONESIA CONTACT IRS TO DETERMINE WHETHER INDONESIA COULD HELP SATISFY REQUIREMENT BY CHANGE IN CONTRACT, REGULATION OF LAW.

12. WIDJOJO MENTIONED INDONESIAN GOVERNMENT SATISFACTION WITH NEW ARRANGEMENT WITH CALTEX CALLING FOR ADDITIONAL \$1 PER BARREL. I SAID I HAD BEEN CONCERNED THAT GOVERNMENT MIGHT BE PROCEEDING SOLELY ON BASIS OF COMPANY'S ANNOUNCED PROFIT AND WITHOUT TAKING INTO CONSIDERATION OTHER FACTORS SUCH AS MARKETS, INVESTMENT AND EXPLORATION LEVEL. WIDJOJO SAID HE WAS CONVINCED CALTEX COULD PAY ADDITIONAL DOLLAR WITHOUT CUTTING BACK ON OTHER ACTIVITIES. HE ACKNOWLEDGED THAT SMALLER COMPANIES INVOLVED IN PRODUCTION-SHARING CONTRACTS WERE DIFFERENT AND SAID THEY WOULD BE TREATED

DIFFERENTLY. I SAID I FELT IT WAS IMPORTANT FROM STANDPOINT OF THEIR FUTURE THAT THEY NOT BE GIVEN IMPRESSION OF ULTIMATUM BUT HAVE FULL OPPORTUNITY PRESENT THEIR SPECIAL PROBLEMS AND CIRCUMSTANCES. HE AGREED.

13. I LEFT WITH HIM PEICE OF PAPER WHICH TOUCHED IN MILITARY ASSISTANCE, TAX RULING, ECONOMIC AID, CONTRIBUTION OF OPIC, CONCESSION WE WERE MAKING ON CIVIL AVIATION, PL-480, RICE PALM OIL POLICY AND OUR ACTION ON TINOR DEBATE IN UN SECURITY COUNCIL, ALL DESIGNED TO MAKE IMPRESSION OF POSITIVE ATTITUDE OF USG TOWARD INDONESIA'S CURRENT PROBLEMS.

4. WIDJOJO CONFIMED HE IS ATTENDING SECRETARY'S DINNER IN NAIROBI MAY 4. DEPARTMENT MAY WISH PASS ABOVE MESSAGE TOSEC.

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